THE POTENTIAL OF PRIVATE SOCIAL SERVICES FOR SENIOR CITIZENS IN THE PRAGUE REGION

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Abstract

This paper addresses possibilities for provision of private sector social services in the field of homes for the elderly and nursing homes within the Capital City Prague. The aim of the article is to identify potential in the capital city for such private facilities as a solution to the long-term excess of demand for care homes for the elderly over supply thereof. The conclusions, which are intended to evaluate the possible potential, are based mainly on analysis of the healthcare and social system in the Czech Republic and predicted demographic development of the Czech Republic.

Key words: *social system, public healthcare system, care benefit, social services*

INTRODUCTION

Facilities providing regional social services for the population of a post-productive age slowly but surely becoming a "scarce commodity" due to shrinking capacity (closure of public sector social and nursing homes for the elderly). Prediction of demographic population structures merely confirms the fact that in the future it will no longer be possible to pay for such services only from contributions to healthcare and social insurance (which are in essence social taxes that are immediately redistributed). Cooperation between the public healthcare system and private investors seems to be the obvious option.

The Prague Region has long suffered from a shortage of beds for senior citizens with long-term illnesses. One possible solution is more intensive involvement of the private sector in the homes for the elderly and nursing homes market. This paper intends to identify the potential for the private sector in nursing homes and homes for the elderly, which would be profitable in market terms for potential investors and affordable for potential clients of such facilities in terms of their average incomes and possible subsidy on the part of the state.

1. GENERAL INFORMATION ABOUT CARE HOMES FOR THE ELDERLY

Care Homes for the elderly are under the control of both the healthcare system and the social services system. For this reason, both of these areas must be borne in mind during the following analysis. The operation of care homes for the elderly is subject to Act No. 48/1997 Coll., the Public Health Insurance Act and Act No. 108/2006 Coll., the Social Services Act, together with Ordinance No. 505/2006 Coll., issued by the Ministry of Labour and Social Services of the Czech Republic *(MoLSA CR)*, for implementing certain provisions of the Social Services Act.

The healthcare system in the Czech Republic is based on the principle of solidarity (Peková, 2008). Healthcare is guaranteed under the Constitution of the Czech Republic. Provision of healthcare is secured by public healthcare insurance according to Act No. 48/1997 Coll., on Public Healthcare Insurance. This act primarily defines participants and payers in the healthcare system, as well as defining their rights and obligations. Public health insurance is a compulsory contribution that covers for public healthcare. There exists the option of taking out insurance alongside public health with

commercial insurance companies against various types of risk. Health insurance in the Czech Republic is compulsory under Act No. 48/1997 Coll.:

a) for all persons with permanent residence status in the Czech Republic (regardless of citizenship),
b) for all persons who do not have permanent residence status in the Czech Republic, if they are employed with an employer whose registered office is in the territory of the Czech Republic or who has permanent residence status in the Czech Republic.

Health insurance contributions constitute 13.5 % of the assessment base (e.g. for employees, this is the sum of all of an employee's income accounted by the employer in connection with employment). All employees, the self-employed and also all those without taxable income (e.g. students, pensioners, housewives etc.) are required to pay health insurance, and at the same time part of the insurance is paid by employers for their employees. The largest, and also state-owned, insurance company is Všeobecná zdravotní pojišťovna (VZP). VZP organises collection of premiums, administration and also payments for medical care. In addition to VZP, another 7 health insurance companies are registered in the Czech Republic as at 30. 11. 2014. Since 2008, other additional fees connected with medical care have to be paid. These are known as "regulatory fees". These are divided into following categories: EUR 1,08 (1 EUR = 27,77 CZK as of February, 5th 2015) per visit to a doctor's surgery as an outpatient (this regulation was cancelled by law in January 2015) and EUR 3,24 for provision of emergency care (e.g. first aid).

Healthcare paid for from public health insurance to the extent and under the conditions specified by law (Ordinance No. 57/1997 Coll.) includes:

a) out-patient and in-patient treatment (including diagnostic care, rehabilitation, care for the chronically ill and medical care for tissue or organ donors connected with removal thereof),
b) emergency and ambulance service,
c) preventive care,
d) dispensary care,
e) removal of tissue or organs for transplantation or essential handling thereof (holding, storage, processing and examination),
f) provision of medicinal products, medical equipment and dental products,
g) food for special medical purposes,
h) spa care and care in specialised children's sanatoria and convalescent homes,
i) profession-oriented preventive care,
j) patient transportation and reimbursement of travel costs,
k) transportation of living donors to and from the removal clinic, to the place providing medical care relating to removal and from that place and reimbursement of travel costs,
l) transportation of living donors to and from the removal clinic,
m) transportation of donated tissue and organs,
n) assessment services,
o) examination of deceased insured and post-mortem, including transportation.

2. HEALTHCARE FACILITIES AND HEALTHCARE EXPENDITURE

As at the last count performed (the last count was made by IHIS CZECH REPUBLIC in 2012), according to the CSO *(Czech Statistical Office)* (IHIS *(Institute of Health Information and Statistics of the Czech Republic*, 2011a) there were a total of 28,384 healthcare facilities in the territory of the Czech Republic. 8% of this total number was operated by the State, 5% by the Region, and 6% by municipalities. Other facilities are operated by private entities. Overall expenditure on healthcare for 2013 totalled 246 billion crowns. This meant a slight drop in this figure as against the preceding year of 0.2%. The share of health insurance companies in financing the healthcare system was 86 %, the rest being private expenditure and expenditure from public budgets. The equivalent of EUR 0,9 per 1 inhabitant was spent in healthcare in 2013 (IHIS, 2013). Expenditure in healthcare over the past few years has been in the region of 7 % of GDP, while in 2013 the figure was 8.7 %. The growth of this

coefficient occurred mainly due to a sharp drop in GDP as against the previous year. An overview of expenditure on healthcare is given in Table No. 1.

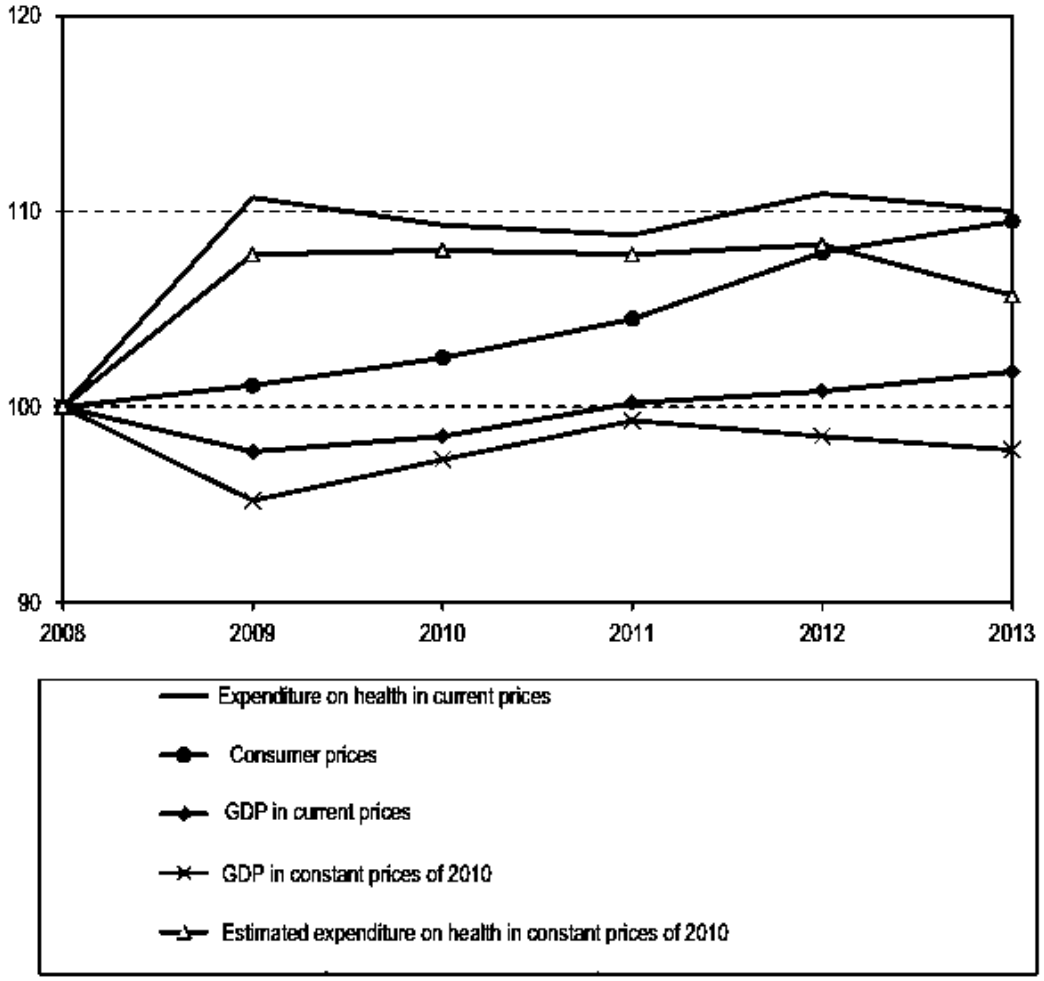
Table No. 1: Overview of Healthcare Expenditure

Year	*State & territorial budgets*	*Health insurance companies*		*Public health expenditure in total*
		total	*o.w.: health care*	
2000	17 170	115 792	111 421	132 962
2005	21 263	170 093	164 343	191 356
2010	20 781	222 500	214 373	243 281
2011	16 863	225 547	217 653	242 410
2012	15 647	231 270	222 760	246 918
2013	16 657	229 905	222 985	246 562

Source: IHIS CZECH REPUBLIC

The hitherto long-term trend supported by the tables of development of public expenditure confirms not only permanent growth of absolute amounts at current prices, but also a growth in constant prices - this means a 49 % increase by 2013 as against the year 2000. Total public expenditure on healthcare every year since 2000 has been in the region of 7 % of the gross domestic product (GDP) and in 2013 the figure was 6.5 %; the size of expenditure on healthcare in terms of GDP is updated every year by the CSO according to the latest adjusted level of GDP.

Figure No. 1: Development of expenditure in healthcare and selected macro-indicators (2008=100)



Source: IHIS CZECH REPUBLIC

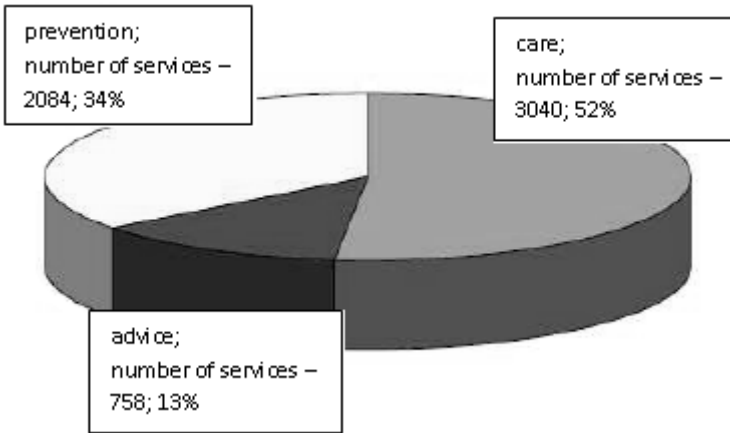
3. SOCIAL SERVICES IN THE CZECH REPUBLIC

Social services offer assistance and support to people in unfavourable social situations in a form that guarantees that human dignity is maintained and also reinforces social inclusion of individuals into society in their natural social environment. Social services are body of specialised activities that help people resolve their adverse social situation (Poláková, 2003). Because the causes of such situations are various, there also exists a wide range of social services.

The basic MoLSA classification of social services is as follows:

a) social advice,
b) social care services,
c) social prevention services.

Figure No. 2: Number of social services according to separate groups recorded in the service providers' registers

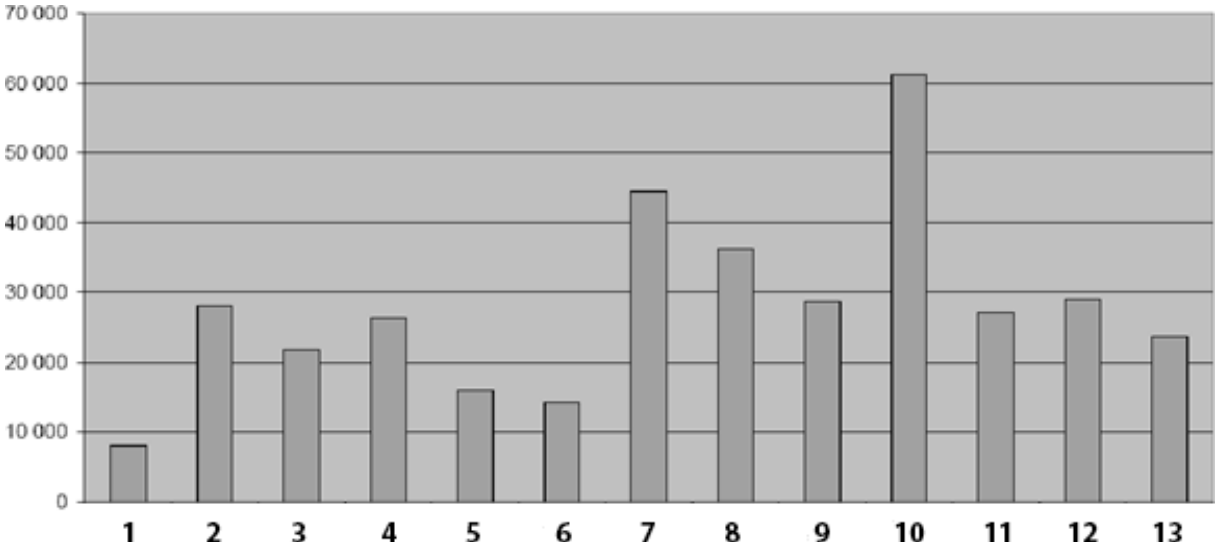


Source: MoLSA CR

An important principle of the social services system is the possibility of combining various types of service and also a combination of services with the assistance and support of the family or close persons. According to MoLSA (MoLSA CR, 2014), social services are provided to approximately 700,000 clients, i.e. about 7 % of the population of the Czech Republic. The number of workers in the social service is in the region of 50,000, which when converted into full-time employment means 1.2 % of the total number of those employed in the Czech Republic.

Funding of social services comes from several sources. The total costs of the system for 2013 amounted to approximately EUR 969 479 353 (0.74 % of GDP). The total costs are covered by clients' payments (35%), the State budget (30%), regional self-government (25%) and by the public healthcare insurance fund and others (7%). When calculating the cost of each service, the different nature of each service must be borne in mind. The cost of social care services differ mainly with respect to differing demands related with care provided for separate types of client. The average costs per bed per month can be seen in figure no. 3 below.

Figure No. 3: Average costs per bed – 2012



Key:
1. Asylum homes
2. Homes for the disabled
3. Homes for the elderly
4. Homes with a "special regime"
5. "Half-Way Houses"
6. Protected accommodation
7. Assistance during crises
8. Relief services
9. Follow-up care services
10. Social rehabilitation
11. Social services provided in institutional care facilities
12. Weekday residential therapeutic institution

Source: MoLSA CR, Selected statistical data on financing social services and care benefits

4. CARE BENEFITS

Care benefits in the social services system are intended primarily to cover the basic activities involved with care provided as part of social services. The care benefit is specified by Act No. 108/2006 Coll., on Social Services and its level is set proportionately to the degree to which the client is dependent upon essential care. All persons dependent on the assistance of another person for regular daily care of their person and to remain self-sufficient in consequent of an adverse medical condition are entitled to this benefit (Slaný, 2004). The entitlement to the benefit pertains to the person whom is to be cared for, and not the person providing such care. The monthly amount of benefit is divided into 4 levels according to the degree of dependence:

a) Level I – EUR 28,81
b) Level II – EUR 144,4
c) Level III – EUR 288
d) Level IV – EUR 432

Box No. 1: Breakdown of degrees of dependence according to Section 8 of the Social Services Act

Section 8, Social Services Act

A person is considered to be dependent on the assistance of another natural person at:

*a) **level I** (slight dependence), if, due to long-term adverse state of health, the person is in need of daily assistance or supervision with more than 12 acts concerning self-care and self-sufficiency or, in the case of persons under the age of 18 years old, with more than 5 acts of care of such person and self-sufficiency,*

*b) **level II** (medium-heavy dependence), if, due to adverse state of health the person is in need of daily assistance or supervision with more than 18 acts concerning self-care and self-sufficiency or, in the case of persons under the age of 18 years old, with more than 10 acts concerning self-care and self-sufficiency,*

*c) **level III** (heavy dependence), if, due to adverse state of health the person is in need of daily assistance or supervision with more than 24 acts concerning self-care and self-sufficiency or, in the case of persons under the age of 18 years old, with more than 15 acts concerning self-care and self-sufficiency,*

*d) **level IV** (total dependence), if, due to adverse state of health the person is in need of daily assistance or supervision with more than 30 acts concerning self-care and self-sufficiency or, in the case of persons under the age of 18 years old, with more than 20 acts concerning self-care and self-sufficiency.*

Source: Social Services Act, Section 8

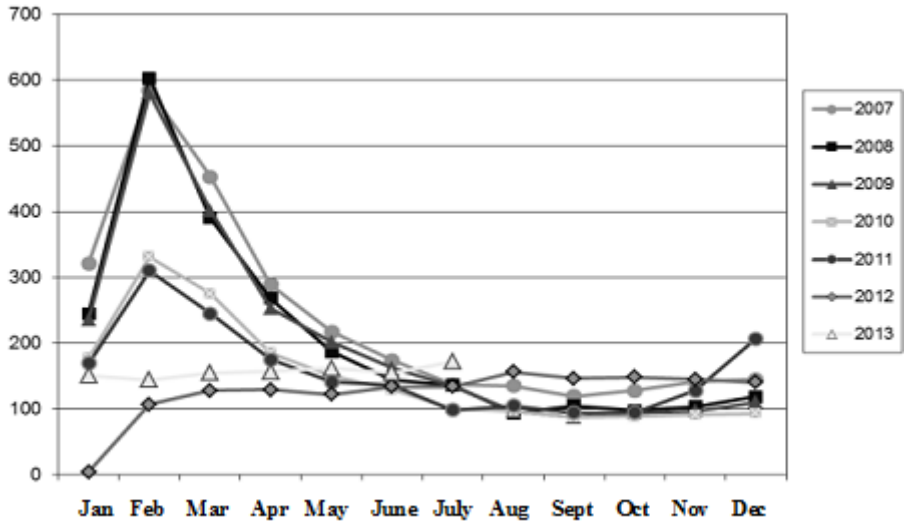
The number of beneficiaries of care benefits is relatively stable. The total number of such beneficiaries is around 280,000 persons who receive about EUR 54 015 124 every month. Table No. 2 below shows the number of beneficiaries for persons over the age of 18 years old in 2013 by Region and also the volume of benefits paid out during the years 2007 - 2013 for persons over the age of 18 years old.

Table No. 2: Number of beneficiaries of care benefits by Region, 2013

	Care benefit 1		Care benefit 2		Care benefit 3		Care Benefit 4		
	Adults		Adults		Adults		Adults		
Region	Men	Women	Men	Women	Men	Women	Men	Women	Total
Czech Republic	30 867	75 269	30 236	54 301	19 859	34 038	10 878	20 887	276 335
Prague Region	**2 578**	**6956**	**2368**	**4404**	**1208**	**2 189**	**623**	**1 277**	**21 603**
South Bohemian Region	1 915	4 921	1 931	3 751	1 288	2 490	832	1 606	18 734
South Moravian Region	3 560	8 739	3 474	6 572	2 575	4 425	1 397	2 734	33 476
Karlovy Vary Region	646	1 428	652	1 127	440	806	231	511	5 841
Hradec Králové Region	1 985	4 779	1 644	3 095	1 048	1 885	530	1 038	16 004
Liberec Region	1 439	3 443	1 290	2 435	824	1 437	432	827	12 127
Moravskoslezský Region	3 845	9 185	3 770	6 354	2 489	4 260	1 543	3 182	34 628
Olomouc Region	2 175	5 162	2 070	3 346	1 317	2 270	757	1 419	18 516
Plzen Region	1 506	3 616	1 630	2 852	1 086	1 874	584	1 008	14 154
Pardubice Region	1 626	3 866	1 529	2 975	1 164	1 890	686	1 094	14 830
Mid Bohemian Region	3 170	8 140	3 091	5 744	1 948	3 119	923	1 713	27 848
Ustecky Region	2 466	5 369	2 815	4 433	1 748	2 731	816	1 448	21 826
Vysocina Region	1 763	4 294	1 864	3 170	1 228	2 061	683	1 364	16 427
Zlin Region	2 193	5 371	2 108	4 043	1 496	2 601	843	1 666	20 321

Source: MoLSA CR

Figure No. 4: Volume of care benefits paid out – comparison for the years 07-13



Source: MoLSA

5. ANALYSIS OF REGIONAL DEMAND AND MARKET POTENTIAL

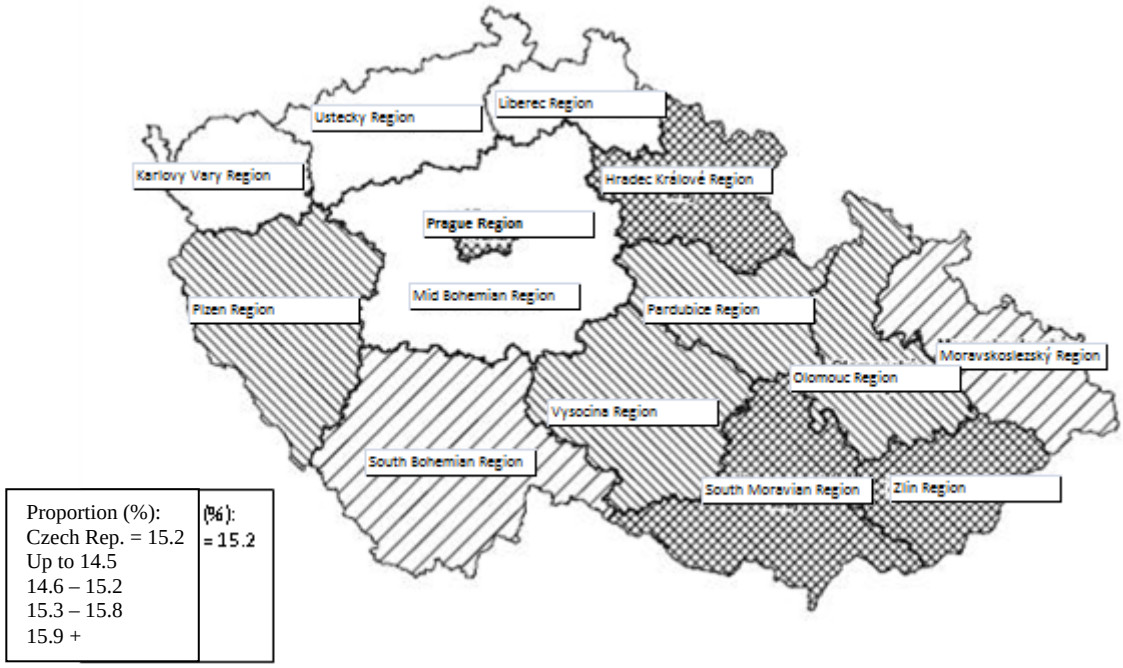
The main points of the market analysis are based on determinant of demand in nursing homes and homes for the elderly.

The main determinants of demand include amongst others:

a) number of inhabitants, or proportion of senior citizens in the population
b) illness / death, mean lifespan
c) size and number of pensions paid

The above list of demand determinants is not necessarily final. Since this paper serves as basic analysis for potential private (or combined private-public) nursing homes/homes for the elderly. The most significant demand determinant is the number of inhabitants or senior citizens eligible to use the services of homes for the elderly or nursing homes, or who will need the services of such facilities in the future. Figure no. 5 below shows projections of the population by age group, with projection of the number of senior citizens.

Figure No. 5: Projection of basic age groups



Source: Czech Statistical Office

Table No. 3: Projection of numbers of senior citizens

Senior citizens in absolute figures and their proportion in terms of the total population in %

Senior citizens in absolute figures and their proportion in terms of the total population in %						
Age	2005	2010	2015	2025	2035	2045
65-71	808 905	924 610	1 165 776	1 184 048	1 176 112	1 520 352
75-84	540 598	527 687	524 561	809 329	847 563	884 345
85+	97 178	144 515	173 809	207 933	376 243	457 323
65-74	7,9	9	11,3	11,6	11,8	15,8
75-84	5,3	5,1	5,1	7,9	8,5	9,2
85+	0,9	1,4	1,7	2	3,8	4,8

Source: IHIS CZECH REPUBLIC

The population projection demonstrates aging of the population, and so an ever growing proportion of senior citizens as against other population age groups. This fact is an extremely positive factor for potential entry of a large wave of private investors, i.e. demand for the services of homes for the elderly will rise constantly. Another important determinant is the development of the state of health of the population. The needs of and demands on separate medical fields can be estimated on the basis of data on state of health and cause of death. One of the most important indicators is also the anticipated mean lifespan which indicates continuing aging of the population and therefore an increase of the proportion of senior citizens in the total number of inhabitants.

Table No. 4: Mean lifespan according to gender

Year	Men	Women
2000	71,65	78,35
2001	72,07	78,41
2002	72,07	78,54
2003	72,03	78,51
2004	72,55	79,04
2005	72,88	79,1
2006	73,45	79,67
2007	73,67	79,9
2008	73,96	80,13

Source: Czech Statistical Office

Another element of relevant demand is not just a sufficient number of persons of pension age, but also the number of persons who are willing to live in a home for the elderly and who have sufficient funds to pay for the services related. For basic data on types of pensions, their average size and numbers of pensioners, see Table no. 5.

Table No. 5: Number of senior citizens and average pensions

Type of pension	Number of senior citizens	Average pension in EUR
Old age pension	2 092 894	373,60
Full disability pension	370 154	354,77
Partial disability pension	215 790	220,42
Orphan's pension	46 798	185,27
Widow's pension	49 281	389,45
Total	**2 790 391**	**353,04**

Source: IHIS CZECH REPUBLIC

To establish market potential, the above determinants of demand are decisive. The market potential may be divided into two segments according to the extent of services provided, into homes for the elderly and nursing homes. The "homes for the elderly" segment covers accommodation for senior citizens who do not need any special healthcare and use accommodation and board services, and potentially other additional services. Another group of clients may be recruited from the ranks of inhabitants who draw a "services pension" (former soldiers, policemen, modern-day war veterans). The calculation for both segments is based primarily on the number of inhabitants of the Czech Republic, and the number of inhabitants of Prague. Of the total number of inhabitants, special attention is given to the number of senior citizens over the age of 65 years old which according to the above statistics accounts for 20 %. When taking into account other aspects, i.e. restriction to senior

citizens of sound body and mind, senior citizens with a preference of living in a home for the elderly and those with sufficient funds and by estimating of the market share of homes for the elderly, the market potential for the "homes for the elderly" segment can be considered to be around 33,000. Numerical estimation of the market potential can be seen in the table below.

Table No. 6: Estimation of market potential for homes for the elderly

Estimation of market potential for homes for the elderly	**Value**
Total population of the Czech Republic in millions (average estimate for the next 20 – 25 years)	10.3
Total population of Prague in millions (average estimate for the next 20 – 25 years)	1.24
Share of target group 65+ in % of total population (average estimate for the next 20 – 25 years)	20%
Total population of target group 65+ of Prague in millions (average estimate for the next 20 – 25 years)	0.25
Of which: those suitable for homes for the elderly in terms of ability to move and mental health (in %)	66.7%
Market potential I Prague	**166,667**
Of which: those without sufficient funds or without preference of living in a home for the elderly (v %)	20.0%
Market potential II Prague	**33,333**

Source: Czech Statistical Office + author's adaptation

The "nursing home" segment covers accommodation of senior citizens who require varying degrees of social, and primarily medical care and it is assumed that such senior citizens receive care benefits under Act No. 108/2006 Coll. Calculation of the market potential is of course based on the same statistical indicators as for the first segment above. The number of inhabitants of Prague is adjusted by the percentage of persons that need permanent care. It is assumed in this case that 4 % of persons need the assistance of a healthcare professional and 1-2 % need institutional care. The resulting market number of beds for nursing homes has been calculated to be approximately 15,000 beds, as is demonstrated below.

Table No. 7: Estimation of market potential for nursing homes

Estimation of market potential for the nursing homes segment in Prague	**Value**
Total population of target group 65+ of Prague in millions (average estimate for the next 20 – 25 years)	0.25
Of which: those who need permanent care at home	6%
Market potential for Prague	**15**
Assumption: Average period of residence in years	**0.67**

Source: Czech Statistical Office + author's adaptation

CONCLUSION

The population of the Czech Republic is becoming "older and older". According to demographic development predictions, the number of senior citizens (those aged 65 and over) will be more than twice in comparison with the year 2010 (VUPSV, 2009). The number of inhabitants in the 80+ age group will be more than 4 times. To look for a solution in the constantly rising State expenditure in the form of almost fully funded social services for this group of the population is unsustainable in the long term. Closer cooperation between the private and public sectors (although this may not necessarily concern complete PPP) currently presents itself as one of the alternatives that could relieve Czech healthcare and the social system.

The purpose of this paper was not to evaluate the situation, trends and relations within the social services system, but to inform about the current situation in the area of provision of social and healthcare services in the Capital City Prague and to identify some basic potential for cooperation of the public and private sectors in the area of social services for senior citizens which could supplement currently lacking capacity.

The primary goal was to perform an overview of private social facility projects from various viewpoints, i.e. from a point of view of market capacities, demand and the influence of certain factors. In the light of the above conclusions, it can be argued that the potential for private (or combined private-public) projects in the market is sufficient. Nevertheless, careful consideration should be given as to what extent the private sector should "substitute" the role of the State.

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